HSBC Global Research

16 November 2020

Essential Utilities (WTRG US)

Buy: Q3 progress through regulatory complexity

Equities
Water Utilities

United States

- Q3 results – top end of annual EPS targets
- Strong acquisitions pipeline – Delcora complexity the exception to the rule; regulatory settlements for infrastructure continuing
- Maintain Buy rating, increase TP to USD55 (from USD50)

Q3 results summary. For the first nine months of 2020, customer growth for the company's water utilities totalled 1.5%. Essential invested USD554.1m in the first nine months of the year to improve its regulated water and natural gas infrastructure systems. Management expects adjusted EPS at the top end of the USD1.53-1.58 range for 2020e, with an earnings CAGR target of 5-7% for 2019 through to 2022e.

Strong pipeline of acquisitions, regulatory settlements continuing. The company has signed purchase agreements for municipal water and wastewater acquisitions that are expected to add the equivalent of more than 212,000 water and wastewater retail customers and approximately USD363m in expected rate base. Its most significant acquisition, Delcora, is mired in regulatory and legal complexity. Essential hopes that all issues will be resolved by March-April 2021. This complexity, in our view, should be regarded as the exception to what is normally a smooth process. To date in 2020, the regulated water segment has received rate awards or infrastructure surcharges in Illinois, Indiana, North Carolina, Ohio, Virginia and Pennsylvania totalling an estimated annualised revenue increase of USD21.0m.

Maintain Buy rating; increase target price from USD50 to USD55. We value Essential Utilities using the average of three approaches: (1) DCF, (2) dividend yield, and (3) the average of our PE multiple and rate-based valuations, which renders our increased target price of USD55 (previously USD50). In our DCF, we increase our estimates for 2020e slightly and roll forward our base to 2021e, which increases our valuation to USD50.80 (from USD48.10). For our yield-based approach, we maintain our target yield at 2.0%. We have rolled forward the dividend, which increases our yield valuation to USD53.70 from USD50.10. For our approach using the average of PE and rate-based valuations, we update our target multiple to 33.0x from 31.0x. We use a water peer group PB of 2.6x as a proxy for our rate-based valuation. The average of the two increases to USD61.80 (from USD52.10), reflecting our updated estimates. Peoples Natural Gas was acquired because it, too, has an accelerated mains replacement cycle. Overall, these changes lead to an increased target price of USD55 (previously USD50), which implies c23% upside from current levels. We reiterate our Buy rating as we believe the combination of regulated investment growth and earnings growth remains attractive.

MAINTAIN BUY

TARGET PRICE (USD)	PREVIOUS TARGET (USD)
55.00	50.00
SHARE PRICE (USD)	**UPSIDE/DOWNSIDE**
44.80	+22.8%

(as of 12 November 2020)

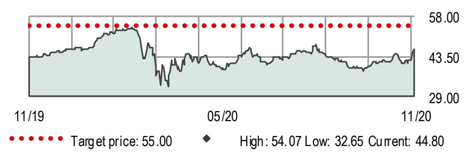
MARKET DATA

Market cap (USDm)	10,983	Free float	100%
Market cap (USDm)	10,983	BBG	WTRG US
3M ADTV (USDm)	51	RIC	WTRG.N

FINANCIALS AND RATIOS (USD)

Year to	12/2019a	12/2020e	12/2021e	12/2022e
HSBC EPS	1.04	1.61	1.67	1.81
HSBC EPS (prev)	1.04	1.53	1.66	1.79
Change (%)	0.0	5.2	0.5	1.3
Consensus EPS	1.48	1.53	1.66	1.79
PE (x)	43.1	27.8	26.9	24.8
Dividend yield (%)	2.1	2.2	2.4	2.6
EV/EBITDA (x)	24.5	18.7	17.7	16.9
ROE (%)	7.6	8.6	7.5	7.8

52-WEEK PRICE (USD)



Source: Refinitiv IBES, HSBC estimates

Verity Mitchell*
Analyst
HSBC Bank plc
verity.mitchell@hsbcib.com
+44 20 7991 6840

Adam Dickens*
Analyst
HSBC Bank plc
adam.dickens@hsbcib.com
+44 20 7991 6798

Rohit Bhalgat*
Associate
Bangalore

** Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations*

Financials & valuation: Essential Utilities

Buy

Financial statements

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Profit & loss summary (USDm)				
Revenue	890	1,882	2,141	2,276
EBITDA	497	834	916	989
Depreciation & amortisation	-157	-249	-266	-292
Operating profit/EBIT	340	585	649	697
Net interest	-131	-155	-192	-201
PBT	212	430	457	495
HSBC PBT	209	430	457	495
Taxation	13	-34	-37	-40
Net profit	225	396	420	456
HSBC net profit	225	396	420	456
Cash flow summary (USDm)				
Cash flow from operations	339	713	705	757
Capex	-550	-950	-1,000	-1,000
Cash flow from investment	-605	-5,225	-1,277	-1,000
Dividends	-189	-246	-270	-289
Change in net debt	-1,352	3,443	542	532
FCF equity	-212	-237	-295	-243
Balance sheet summary (USDm)				
Intangible fixed assets	64	939	939	939
Tangible fixed assets	7,224	11,325	12,335	13,043
Current assets	2,011	2,152	2,188	2,207
Cash & others	1,869	1,869	1,869	1,869
Total assets	9,360	14,477	15,524	16,251
Operating liabilities	1,468	1,677	1,732	1,761
Gross debt	3,077	6,521	7,063	7,595
Net debt	1,208	4,652	5,194	5,726
Shareholders' funds	3,881	5,345	5,795	5,961
Invested capital	5,962	10,870	11,862	12,560

Ratio, growth and per share analysis

Year to	12/2019a	12/2020e	12/2021e	12/2022e
Y-o-y % change				
Revenue	6.2	111.6	13.8	6.3
EBITDA	5.7	67.7	9.8	8.0
Operating profit	5.3	72.0	11.0	7.3
PBT	18.6	103.3	6.3	8.4
HSBC EPS	-3.4	55.1	3.4	8.4
Ratios (%)				
Revenue/IC (x)	0.2	0.2	0.2	0.2
ROIC	6.4	6.4	5.3	5.2
ROE	7.6	8.6	7.5	7.8
ROA	4.1	4.5	4.0	4.0
EBITDA margin	55.9	44.3	42.8	43.5
Operating profit margin	38.2	31.1	30.3	30.6
EBITDA/net interest (x)	3.8	5.4	4.8	4.9
Net debt/equity	31.1	87.0	89.6	96.0
Net debt/EBITDA (x)	2.4	5.6	5.7	5.8
CF from operations/net debt	28.0	15.3	13.6	13.2
Per share data (USD)				
EPS Rep (diluted)	1.04	1.61	1.67	1.81
HSBC EPS (diluted)	1.04	1.61	1.67	1.81
DPS	0.94	1.00	1.07	1.15
Book value	17.97	21.79	23.00	23.66

Source: Company data, HSBC estimates

Valuation data

Year to	12/2019a	12/2020e	12/2021e	12/2022e
EV/sales	13.7	8.3	7.6	7.3
EV/EBITDA	24.5	18.7	17.7	16.9
EV/IC	2.0	1.4	1.4	1.3
PE*	43.1	27.8	26.9	24.8
PB	2.5	2.1	1.9	1.9
FCF yield (%)	-1.9	-2.2	-2.7	-2.2
Dividend yield (%)	2.1	2.2	2.4	2.6

*Based on HSBC EPS (diluted)

Source: Company data, HSBC estimates

ESG metrics

Environmental indicators	12/2019a
GHG emission intensity*	n/a
Energy intensity*	n/a
CO_2 reduction policy	Yes
Social indicators	**12/2019a**
Employee costs as % of revenue	n/a
Employee turnover (%)	n/a
Diversity policy	Yes

Governance indicators	12/2019a
Number of board members	8
Average board tenure (years)	7.0
Female board members (%)	25
Board member independence (%)	87.5

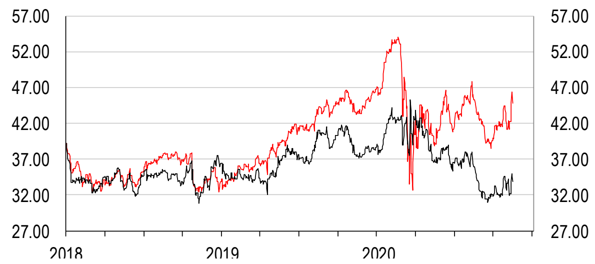
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Source: Company data, HSBC

Issuer information

Share price (USD)	44.80	Free float	100%
Target price (USD)	55.00	Sector	Water Utilities
RIC (Equity)	WTRG.N	Country/Region	United States
Bloomberg (Equity)	WTRG US	Analyst	Verity Mitchell
Market cap (USDm)	10,983	Contact	+44 20 7991 6840

Price relative



Note: Priced at close of 12 November 2020

Source: HSBC

Q3 Progress, some regulatory complexity remains

- Q3 results – top end annual EPS targets indicated
- Strong pipeline of acquisitions – Delcora complexity the exception to the rule; regulatory settlements for infrastructure continuing
- Maintain Buy rating; increase TP to USD55 (from USD50)

Q3 2020 results summary

Essential Utilities reported Q3 results on 3 November 2020. The regulated water segment reported revenues for the quarter of USD255.7m, an increase of 5.3%. Increased volume and rates and surcharges were the largest contributors to the increase in revenues for the period, in addition to customer growth from both organic growth and acquisitions. Operations and maintenance expenses for the regulated water segment decreased by 2.2% to USD79.3m for the third quarter of 2020. The regulated natural gas segment reported revenues for the third quarter of 2020 of USD88.9m. Operations and maintenance for the same period for the regulated natural gas segment were USD59.6m and purchased gas costs were USD14.8m. The first nine months of 2020, customer growth for the company's water utilities has totalled 1.5%.

The company has signed purchase agreements for other municipal water and wastewater acquisitions that are expected to add the equivalent of over 212,000 water and wastewater retail customers and approximately USD363m in expected rate base.

Essential invested USD554.1m in the first nine months of the year to improve its regulated water and natural gas infrastructure systems and to enhance its customer service across its operations. This does not include an additional USD53.5m that was invested by Peoples, pre-closing, during the period from 1 January to 15 March 2020.

To date in 2020, the regulated water segment has received rate awards or infrastructure surcharges in Illinois, Indiana, North Carolina, Ohio, Virginia and Pennsylvania totalling an estimated increase in annualized revenues of USD21.0m.

Essential declared a quarterly cash dividend of $0.2507 +7%.

The outlook:

- Expects adjusted income per diluted common share (non-GAAP) at the top end of the USD1.53 to USD1.58 range
- Earnings growth CAGR of 5 to 7% for 2019 through to 2022
- Regulated water segment infrastructure investments of approximately USD550m in 2020
- Regulated natural gas segment infrastructure investments of approximately USD400m in 2020 on full-year basis (adjusted to include capital invested in 2020 prior to Essential's ownership)

- Infrastructure investments of approximately USD2.8bn through to 2022 in existing operations to rehabilitate and strengthen water, wastewater, and natural gas systems (including regulated natural gas segment capital invested in 2020 prior to Essential's ownership)
- Regulated water segment rate base compound annual growth rate of 6 to 7% through to 2022
- Regulated natural gas segment rate base compound annual growth rate of 8 to 10% through to 2022
- Total annual regulated water segment customer growth of between 2 and 3% on average depending upon regulatory approval

Delcora the exception that proves the rule on regulatory complexity – expect closure by March-April 2021

Management provided an update to its proposed Delcora acquisition which is currently mired in regulatory and legal complexity. There is an imminent court proceeding to decide whether there is a valid and enforceable contract in place between Essential and Delcora. In addition, there are separate issues about the Delcora trust. In addition to these legal complexities the PUC will then become involved in assessing the acquisition. Essential hopes that all issues – legal and regulatory – will be resolved by March-April 2021. This complexity, in our view, should be regarded as the exception to what is normally a smooth process.

Use of equity raise proceeds
The CEO also mentioned in the earnings call Q&A that the USD300m August equity offering wold be deployed even if there were continuing delays in the Delcora acquisition. Management is seeing a number of medium to large acquisition opportunities. Equity currently deferred would be deployed as and when needed in order to finance these acquisitions.

Acquisitions will remain focused on water and waste water. The Peoples gas rate base growth is targeted to be 8% to 10% annually without acquisitions given the need for pipe replacement.

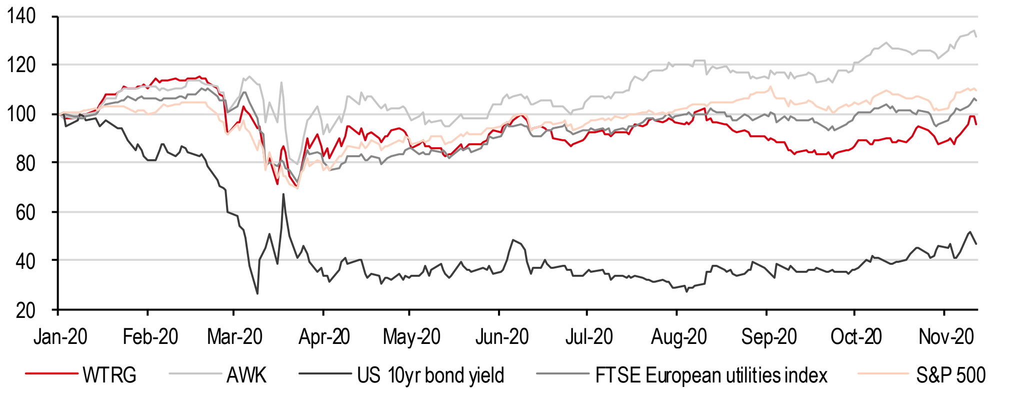
Peoples rate case use tax repair – resolution expected Q2 2021

Essential is focusing on repair tax principles which it has utilised in water in Pennsylvania. It filed a request for USD380 of repair tax in July from the Pennsylvania PUC. This is a catch-up deduction for the tax repair eligible capital invested prior to Essential's ownership of Peoples. Regulatory evidentiary hearings area expected at the end of January. The company expects a final order sometime early in the second quarter of 2021.

Performance against peers

YTD, Essential's share price has underperformed the S&P 500 by 14%. It is trading at a discount to its water peer group's 2020e PE, but in line with some of the US electricity utilities according to Refinitiv Datastream. This reflects, in our view, its multi-utility status. The US Treasury 10-year yield has fallen sharply. WTRG, as a defensive utility, should be inversely correlated to bond yields.

YTD performance of WTRG vs AWK vs UST 10yr vs FTSE European utilities index vs S&P500



Source: Refinitiv Datastream

Credit metrics analysis

Moody's requires RCF/net debt in the range of 7-14% and FFO/net debt in the range of 11-18% to maintain a 'Baa' credit rating. Essential's credit metrics for 2020, shown below, meet the requirements – it currently has a Baa2 credit rating from Moody's with stable outlook.

Credit metrics analysis

	2020e	2021e	2022e	2023e	2024e	2025e
RCF / net debt	8.6%	8.1%	8.1%	8.0%	8.1%	8.3%
FFO / net debt	13.9%	13.3%	13.1%	13.1%	13.4%	13.8%

Source: HSBC estimates

Change in estimates

We have updated our estimates post Q3 2020 results to reflect improved performance at the P&L bottom line. We continue to assume the USD300m of equity issuance, which was done on a forward basis.

Change in estimates (USDm)

	2020e	2021e	2022e
EBIT (USDm)			
Revised	585	649	697
Previous	585	639	697
Change	*0%*	*2%*	*0%*
Net income (USDm)			
Revised	396	420	456
Previous	400	445	479
Change	*-1%*	*-6%*	*-5%*
EPS (USD)			
Revised	1.61	1.67	1.81
Previous	1.53	1.66	1.79
Change	*5%*	*1%*	*1%*
DPS (USD)			
Revised	1.00	1.07	1.15
Previous	1.00	1.07	1.15
Change	*0%*	*0%*	*0%*

Source: HSBC estimates

Valuation and risks

We value Essential Utilities using the average of three approaches: (1) DCF, (2) dividend yield, and (3) the average of our PE multiple and rate-based valuations, which renders our increased target price of USD55 (previously USD50).

- In our DCF, we maintain our beta at 0.6 in line with its peers. We updated our estimates as above, moved equity issuance to for Delcora to 2021 and rolled forward our DCF valuation to 2021e which increases our valuation from USD48.10 to USD50.80.
- For our yield-based valuation, we maintain our target yield at 2.0% to keep it in line with the water and related utilities peers. We have rolled forward the dividend which increases our yield valuation to USD53.70 from USD50.10.
- For our approach using the average of PE multiple and rate-based valuations, we update our target multiple to 33.0x from 31.0x to keep it in line with that of peers. We use a water peer group PB of 2.6x as a proxy for a rate-based valuation. This is consistent with all US utilities under our coverage and is a proxy for EV. The average of the two increases to USD61.80 (from USD52.10), reflecting our updated estimates. We continue to use regulated water peers, not gas utility peers, because water utilities have higher implicit growth. Peoples was acquired because it, too, has an accelerated mains replacement cycle.

Overall, these changes lead to an increased target price of USD55 (previously USD50), which implies c23% upside from current levels. We reiterate our Buy rating as we believe the combination of regulated investment growth and earnings growth remains attractive.

Summary of valuation (USD)

Particulars	New	Previous
Current price at close of 12-Nov-2020	**44.8**	**NA**
DCF (updated estimates, rolled forward valuation)	50.8	48.1
Yield 2% (yield unchanged, dividend rolled forward)	53.7	50.1
SOP & Peer multiple (updated estimates and multiples)	61.8	52.1
Target price (average rounded)	**55.0**	**50.0**
Upside/ downside to target price	22.8%	NA
Rating	**Buy**	**Buy**

Source: HSBC estimates

WACC inputs and DCF valuation

WACC inputs		Equity valuation	USDm
Cost of debt		**+ DCF value**	**16,555**
Pre-tax cost of debt	3.9%	+ ST marketable assets	0
Marginal tax rate	8.0%	+ Value of associates	0
Cost of equity		+ Other assets	878
Risk-free rate	2.5%	**EV (asset side)**	**17,433**
Equity risk premium	3.0%	- Net debt (+ if Net cash)	(4,623)
Additional risk		- Quasi debt (pension)	0
Beta (unchanged)	**0.60**	- Value of minorities	0
Debt - 32%	3.6%	Total non-equity claims	(4,623)
Equity - 68%	4.3%	Value of equity	12,811
Cost of capital	**4.0%**	**Value per share (USD)**	**50.8**

Source: HSBC estimates

Sum-of-the-parts (SOP) and multiples valuation

	2021e Rate base
Regulated water	
Pennsylvania	3,954
Ohio	393
Illinois	409
Texas	342
New Jersey	229
North Carolina	263
Indiana	96
Virginia	89
Regulated gas	2,634
Total	**8,409**
Price to rate base	21,864
Non-regulated 2020 PE multiple	9
Net debt 2020e, pensions & Minority	(4,623)
Estimated equity value	17,251
Estimated equity value per share (USD)	**68.5**
PE Multiple valuation	
2020 earnings	1.67
2020 PE sector average	33.0
Value per share	**55.1**
Average of rate base valuation and PE multiple valuation	**61.8**

Source: HSBC estimates

Downside risks: Essential Utilities failing to achieve the desired rate case revisions and infrastructure surcharges; lacking organic growth from asset replacement; inability to take advantage of the Fair Market Value legislation opportunity; dividend growth at a lower rate than we assume; inability to gain the Fair Market Value premium required in the systems it wants to acquire in Pennsylvania. Its current acquisitions of systems – New Garden and Limerick – are facing challenges to the premium proposed by Aqua.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Verity Mitchell and Adam Dickens

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 16 November 2020, the distribution of all independent ratings published by HSBC is as follows:

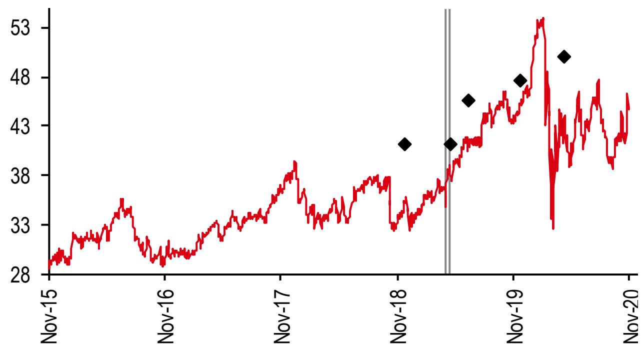
Buy	57%	(33% of these provided with Investment Banking Services)
Hold	34%	(30% of these provided with Investment Banking Services)
Sell	9%	(27% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures.

Share price and rating changes for long-term investment opportunities

Essential Utilities (WTRG.N) share price performance USD Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Restricted	15 Apr 2019	
Restricted	Buy	30 Apr 2019	Verity Mitchell

Target price	Value	Date	Analyst
Price 1	41.00	06 Dec 2018	Verity Mitchell
Price 2	Restricted	15 Apr 2019	
Price 3	41.00	30 Apr 2019	Verity Mitchell
Price 4	45.50	28 Jun 2019	Verity Mitchell
Price 5	47.50	06 Dec 2019	Verity Mitchell
Price 6	50.00	22 Apr 2020	Verity Mitchell

Source: HSBC

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

Clients of Global Research and Global Banking and Markets: www.research.hsbc.com/A/Disclosures

Clients of HSBC Private Banking: www.research.privatebank.hsbc.com/Disclosures

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
ESSENTIAL UTILITIES	WTRG.N	44.71	13 Nov 2020	5, 6

Source: HSBC

1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 31 October 2020, HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 30 September 2020, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 30 September 2020, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.

7 As of 30 September 2020, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.

8 A covering analyst/s has received compensation from this company in the past 12 months.

9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.

10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.

11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

12 As of 10 Nov 2020, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology

13 As of 10 Nov 2020, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

Non-U.S. analysts may not be associated persons of HSBC Securities (USA) Inc, and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts.

Economic sanctions imposed by the EU and OFAC prohibit transacting or dealing in new debt or equity of Russian SSI entities. This report does not constitute advice in relation to any securities issued by Russian SSI entities on or after July 16 2014 and as such, this report should not be construed as an inducement to transact in any sanctioned securities.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

1 This report is dated as at 16 November 2020.

2 All market data included in this report are dated as at close 12 November 2020, unless a different date and/or a specific time of day is indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Production & distribution disclosures

1. This report was produced and signed off by the author on 13 Nov 2020 16:43 GMT.
2. In order to see when this report was first disseminated please see the disclosure page available at https://www.research.hsbc.com/R/34/WhqtKch

Disclaimer

Legal entities as at 1 September 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; HSBC France, S.A., Madrid, Milan, Stockholm; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

Issuer of report
HSBC Bank plc
8 Canada Square
London, E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

In the UK this document has been issued and approved by HSBC Bank plc ("HSBC") for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. It is not intended for Retail Clients in the UK. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at www.business.hsbc.com.sg for contact details.

In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

This publication has been distributed in Japan by HSBC Securities (Japan) Limited. It may not be further distributed, in whole or in part, for any purpose. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by Banco HSBC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. Nothing herein excludes or restricts any duty or liability to a customer which HSBC has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC in the UK will not enjoy the protections afforded by the UK regulatory regime. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Bank plc is registered in England No 14259, is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions ("KRC Terms") for access to the KRC, and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications using the KRC. Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the KRC Terms.

If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the KRC Terms, which can be found at https://research.privatebank.hsbc.com/ – we draw your attention also to the provisions contained in the Important Notes section therein.

[1159925]